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SUBJECT: LESOTHO'S INPUT FOR 2007 PRESIDENT'S REPORT ON AGOA

REF: STATE 22438

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11. SUMMARY: In response to REFTEL, Embassy Maseru provides the following input for the 2007 President's Report on AGOA. Two-thirds of Lesotho's export revenues are dependent on AGOA, and the textile industry spawned by AGOA is now the largest formal sector employer in the nation. Lesotho is a democracy with a free market economy which is struggling to address the problems of economic diversification, poverty, and HIV/AIDS. Lesotho stands as an AGOA success story, and is poised to continue to take advantage of its status under this trade legislation in the years to come. END SUMMARY.

Lesotho Under AGOA

12. The following information was requested REFTEL:

STATUS:

AGOA eligible including apparel and textile benefits

AGOA TRADE AND INVESTMENT:

The United States remained the largest recipient of Lesotho's exports in 2006, accounting for 67% of total exports. Lesotho's 2006 exports under AGOA and its GSP provisions were valued at \$327 million, representing about 95% of the country's exports to the United States. Apparel and textile manufacturing is the largest formal sector employer in Lesotho.

MARKET ECONOMY/ECONOMIC REFORM/ELIMINATION OF TRADE BARRIERS:

Lesotho has a free market economy. Diversifying the economy is the top goal for economic reform. Financial infrastructure shortcomings have also been identified as one of the technical barriers to trade. In 2006, the Central Bank of Lesotho embarked upon modernization of the country's payment and settlement system (the "Lesotho Wire System") as a way of strengthening the nation's financial infrastructure and maintaining financial stability. The benefits of this system include improving Lesotho's credit rating, which will in turn improve the country's international investment position.

RULE OF LAW/POLITICAL PLURALISM/ANTI-CORRUPTION:

Lesotho's ruling party, the Lesotho Congress for Democracy (LCD), won a controlling majority of seats in the National Assembly in the February 17, 2007 national election. Eleven political parties will be represented in the National Assembly when the Parliament opens for its first session on March 9, 12007. The LCD will have a strong majority in the 120-seat lower house, holding 61 seats from constituency elections and an additional 21 seats from proportional representation due to its alliance with the National Independent Party (NIP). The All-Basotho Convention (ABC) will be the largest parliamentary

opposition, with 17 constituency seats plus 10 proportional representation seats due to its alliance with the Lesotho Workers Party (LWP). The government wages a credible battle against corruption, including regular prosecutions.

POVERTY REDUCTION STRATEGY:

The country's Poverty Reduction Strategy Paper, approved by the World Bank in 2004, is currently under review. In 2006, Lesotho finished implementing free primary school education nationwide. The Ministry of Education is increasing resources available at secondary school level to absorb the graduates of the newly free primary schools. The Ministry of Health and Social Welfare has completed the second phase of upgrading health care facilities in the Lesotho's main hospital. The Government has also scaled up HIV/AIDS care and treatment services to combat new HIV/AIDS infections and bring those infected with the disease back into the productive work force.

LABOR/CHILD LABOR/HUMAN RIGHTS:

Lesotho has ratified all core International Labor Organization (ILO) standards, including the ILO Convention on minimum age and ILO Convention 182 regarding the worst forms of child labor. Workers in the private sector have the right to form and join trade unions. As a result of the impact of HIV/AIDS on the adult work force, child labor does exist in the informal sector. Increasing numbers of HIV/AIDS orphans are at risk of informal sector employment including child prostitution. Lesotho is participating in two regional USDOL programs to mitigate the incidence of child labor. The government generally respects the human rights of its citizens.

Lesotho Needs AGOA

13. COMMENT: Over 40,000 Basotho workers in the textile industry depend on trade conducted under AGOA for their livelihood. Considering the effects of this economic activity on a small nation of two million with approximately 50%

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unemployment, the true nature of AGOA's huge impact on the Mountain Kingdom comes into focus. We look forward to continuing to help Lesotho diversify its export base and to further expand the benefits of AGOA in this nation. END COMMENT.
PERRY